

# **The Purchase**

**OF THE**

# **Canadian Northern Railway**

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**Whereby the people of  
Canada become the  
absolute owners of this  
great system**

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**A notable achievement**

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# THE PURCHASE OF THE CANADIAN NORTHERN RAILWAY

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In the lengthy list of first-rate achievements which stand to the credit of the Borden Administration, not the least notable is the measure by which the Canadian people acquire control of the Canadian Northern Railway System. This legislation, introduced during the last session of the late Parliament, was designed to meet a very serious transportation problem confronting the Dominion. With the origin and character of that problem, or with the men and measures rightly held responsible for it, this article is not intended to deal; that question may safely be left to a happier time when the national mind does not need to be concentrated upon the supreme issue of the war. For present purposes it will be necessary only to say that during the past year it became manifest that the financial position of the Canadian Northern Railway Company was such as to demand imperatively further assistance from the Government if it was to continue to serve the public as a solvent, going concern. In meeting the situation thus confronting it, the Government had to choose one of three alternatives:

- (1) Permit the road to go into a receivership;
- (2) Grant further financial aid;
- (3) Acquire the road and operate it for the public.

A receivership was absolutely out of question. It was out of question because it would have aimed a blow at the national credit

at a time when the financial needs of the war make it essential that that credit be not impaired. And it was out of question because it would have dislocated and crippled operation of the road at a time when both domestic and war needs make it vital that transportation service be of the most efficient character.

Further financial aid to the company presented features almost as undesirable as a receivership. In the first place such a policy would have disregarded one of the main recommendations of the Drayton-Acworth report. In the second place it is doubtful whether aid so rendered would have furnished permanent solution of the difficulty. And, finally, in view of past generous aid granted the Canadian Northern from the public treasury, in the way of subsidies, guarantees and loans, a policy of continued assistance would have done violence to public opinion. Further financial aid was clearly inexpedient if not impossible.

Therefore, the Government reached the conclusion that if, in order to prevent receivership or liquidation with attendant disastrous results, aid of some kind was necessary, that aid ought to be given to a road the whole of whose capital stock is vested in the people of Canada, so that the Canadian people may receive any benefit and advantage derived from the aid so given. In other words it decided that no further assistance should be granted to the Canadian Northern Railway Company while it was privately owned and controlled.

### **WHAT THE GOVERNMENT DID.**

Accordingly, the Government, on August 1, 1917, brought into Parliament a measure providing for public acquisition of the \$60,000,000 of stock that is privately owned in the Canadian Northern Railway System. This stock, added to the \$40,000,000 worth of shares which the country acquired under the Canadian

Northern guarantee legislation of 1914, will make the Canadian people absolute owners of the Canadian Northern Railway System. Whatever money they expend in payment of fixed charges, for betterments, or for rolling stock, will, in future, enure to their direct and sole benefit. The Government felt, however, that while public ownership and control of the stock of the company was for the national good, it was desirable, in the interests of efficiency of management, and for the purpose of financing, that the system should continue to be administered as a corporate entity. In other words the road shall continue to be operated through a boards of directors and will not, as in the case of the Intercolonial, be under the immediate direction and administration of the Minister of Railways. Parliament will, of course, through the Government, name the boards and exercise final control, but the boards will to all intents and purposes be independent and, through their executive officers, administer the system.

In acquiring the 600,000 shares of Canadian Northern stock for the public, **the Government recognized the simple British principle that if the shares possessed any value, the holders should be paid for their property.** It was determined that an able and impartial tribunal should hear, not only one side alone, but both and decide what, if anything, the shares were worth. Consequently, it was proposed to have the value of the stock determined by arbitration after the method recommended in the Drayton-Acworth report. A board of arbitrators has been constituted, one arbitrator (Sir William Meredith) named by the Dominion Government, one by the owners or pledgees of the stock, and the other to be chosen by these two. In case of non-agreement in regard to the third arbitrator, he will be named by the senior judge of the Exchequer Court. In the event of these arbitrators failing to agree upon the value that should be given the stock, it is provided that there shall be an appeal to the Supreme Court of Canada, both as to law and as to facts.

It was also provided that the Government should reserve the right to set a limit upon the amount which the arbitrators may name as the value of the stock, and that any undisclosed liabilities of the Canadian Northern Railway Company shall be deducted from the amount of the arbitrators' award. Thus the country is safeguarded from the possibility of the Arbitration Board setting too high a value upon the stock, or from the danger of becoming liable for undisclosed debts or liabilities of the Canadian Northern System.

### WHAT THE PEOPLE GET.

By virtue of this Canadian Northern purchase, the people of Canada become the absolute owners of 9,513 miles of the Canadian Northern Railway System, with branches in all provinces of the Dominion except New Brunswick and Prince Edward Island, and including 6,000 miles of branches in Western Canada. They become owners of all the important adjuncts of the road, including telegraph companies, express companies, steamship companies and elevator companies. The Canadian Northern owns, among other assets, the Lake Superior terminals, with five elevators, at Port Arthur, with a capacity of 10,000,000 bushels. It owns a steamship line with six large ships on the Great Lakes. It owns the Canadian Northern Telegraph Company, and within the last five years the Canadian Northern Telegraph Company acquired the Great Northwestern Telegraph Company, the two systems having some 1,500 offices throughout Canada, the Great Northwestern connecting with the Western Union Telegraph Company of the United States and its cable service across the Atlantic.

And in addition to the acquisition of all these great national utilities, the Canadian people, by this legislation, vastly improve the position of the Intercolonial. When the Quebec bridge is completed, as it shortly will be, the Intercolonial will have access over

the Canadian Northern Quebec to the terminals of the Canadian Northern in Montreal. And with the terminals of the Canadian Northern in Montreal under the control and ownership of the people of Canada, the Intercolonial will have connection with Ontario and all the rest of Canada. This opens up a great vista to the imagination of the Canadian people because it means that they will own, not only a highway from Halifax to Vancouver, but a great transcontinental railway system, in grades, curvatures and connection second to none.

### **ATTITUDE OF THE OPPOSITION.**

The attitude of Sir Wilfrid Laurier and his followers toward the Government's proposals was illogical, inconsistent, and, at times, incoherent. Some of them maintained that the Canadian Northern stockholders didn't want the legislation; others charged that it was for their especial benefit. Some urged that the company be given further aid; others advocated that the road be left to pass into a receivership. Some who in 1914 had voted for taking over the road by arbitration at a price not to exceed \$30,000,000, now opposed arbitration and declared the stock to be not worth a cent. And, finally, those who championed private ownership and opposed taking over the road at all, ultimately supported an amendment calling for the confiscation of the system outright.

Toward the close of the debate Hon. George P. Graham made a brave attempt to co-ordinate and unite the Opposition by an amendment which declared that by virtue of the terms of the legislation under which Parliament, in 1914, guaranteed \$45,000,000 of Canadian Northern securities, the Government was in a position to take over the road outright without arbitration, delay or the payment of a cent for the stock. The clause in the 1914 statutes upon which Mr. Graham based his amendment was as follows:

"If authorized by the Parliament of Canada, the Governor in Council may on such terms and conditions (if any) as Parliament may prescribe, at any time while any event of default shall exist and be continuing, by order declare the equity of redemption of the Canadian Northern and of all other persons whomsoever in the mortgaged premises to be foreclosed; and thereupon the equity of redemption of the Canadian Northern (and of such other persons) in the mortgaged premises and every part thereof shall be and become absolutely barred and foreclosed, and the same shall thereupon be vested in His Majesty in right of the Dominion of Canada, any statutory enactment or any rule of law or equity to the contrary notwithstanding."

### **SIR ROBERT BORDEN'S REPLY.**

The reply of the Government to Mr. Graham was made by Sir Robert Borden, and constituted a complete and convincing defence of the Administration's proposals. Following is a portion of the Premier's speech in the Commons in explanation of the reasons why the Government did not resort to the methods advocated in Mr. Graham's amendment:

"My hon. friend (Mr. Graham) then came down to the legislation of 1914, upon which he bases his chief argument. He endeavoured in the first place to distort the statements of the Minister of Finance into a declaration that default has actually occurred. The statements of the Minister of Finance bear no such construction, and if my hon. friend examines them carefully I am sure he will agree with that. His principal allusion was to sections 21 and 24 of the Act of 1914. Let us look once more at section 24 (the section quoted in the foregoing) and ascertain whether or not the necessary procedure under that section would be different from that which we are now proposing to Parliament.

"In the first place, I invite the attention of the House to this: sections 22 and 23 provide that in certain events the



Governor in Council may declare to be vacant the offices of the directors of the Canadian Northern and of any of the constituent or subsidiary companies and that the Governor in Council may thereupon appoint directors to the offices so vacated and proceed to assume the management of the Canadian Northern Railway System. Then comes section 24, which provides that if any such default has taken place, the Governor in Council, upon such terms and conditions as Parliament may prescribe, shall declare the mortgaged premises to be foreclosed. The effect of that would be to take out of the ownership of the Canadian Northern Railway Company the physical properties now vested in that company and to transfer them to the Crown in the right of the people of Canada. The Canadian Northern Railway Company would cease to own the physical properties that were vested in it. The Canadian Northern Railway Company would cease to be the holder of the stock of the subsidiary and constituent companies; and the physical properties to which I have referred, as well as the stock in the constituent and subsidiary companies, would be vested in the Crown, in the right of the people of Canada. The road then being vested in the Crown, its operations would have to be provided for. We should either have to bring it under the administration of a department of the Government, under a minister of the Crown, or provide some machinery by which the operation of the road could be carried on on behalf of the people. But the member for South Renfrew seems to take it for granted that all this can be done by Order in Council. It cannot be done by Order in Council until the authority of the Parliament of Canada shall have first been obtained. Let me emphasize the language of section 24 in that regard:

If authorized by the Parliament of Canada, the Governor in Council may on such terms and conditions (if any) as Parliament may prescribe, etc.

“What would be the duty of a government in this or in any other country if it came to Parliament with a proposal that certain property subject to a mortgage should be foreclosed, and that the title to that property should be vested

absolutely in the mortgagee? Would it be a proper course for the Government to invite Parliament to confiscate that property without regard to the claims of the owners that the equity of redemption had some value? Even if the Government or Parliament were absolutely convinced that the property had no value, would it be according to the ordinary dictates of justice as administered in this country at all times in the past—and as it will, I hope, be administered in the future—that the right of hearing as to the value of the property should be denied to the persons in whom that property was vested? I venture to say that neither this Government nor any Government that could be formed on the other side of the House would come to Parliament and say: Although this claim as to value is put forward, we shall disregard it; we shall pass a resolution of this Parliament vesting in the Crown without compensation the equity of redemption which is now held by the persons who own this property subject to the mortgage. What, therefore, would be the proposal that a government, having reasonable regard to these considerations, should make to Parliament? It would ask Parliament to establish and define some tribunal before which the persons in whom the equity of redemption was vested should have reasonable opportunity of putting forward their claim, if any, and of supporting it by such evidence as might be available. That, it seems to me, would be the result if we proceeded under the statute of 1914, and that is precisely the method which we are adopting in presenting to the House the proposals that are now under consideration.

“The only distinction, therefore, between the procedure under the Act of 1914 and the procedure proposed by the Government at this time is simply this: in the one case we acquire absolutely the ownership of the road by foreclosing the mortgage and vesting the title to the physical properties in the Government; in the other case we vest the ownership in the Government by the absolute acquisition of all the stock, maintaining the corporation as an entity and using the corporate machinery for the purpose of operating the road in order that

it may not be brought under the direct administration of the Government itself. That is the difference between the one proposal and the other. I will repeat that in order that I may make my remarks perfectly clear to the House and to the country. In the one case, we should acquire, by arbitration or by reference to some similar tribunal, the equity of redemption in these properties, and having acquired that equity of redemption we should either have to administer those properties under the direction of the Government itself, or provide some machinery by which they could be administered without the direct intervention of the Government. In the other case, we do not take away from the company the ownership of the physical properties; we leave them in the company as they are at present, but we proceed to acquire the entire balance of the capital stock so that the road, to all intents and purposes, is vested and will remain vested in the ownership of the people of this country. To my mind, the advantage of that is obvious. By acquiring the stock without taking the property out of the ownership of the company we still use the corporate machinery, the staff of employees, all the organization that has been built up during fifteen or twenty years; we utilize all that; we operate the road by means of that; we avoid the evils and dangers which would attend the administration and operation of this road under a department of the Government. That is the difference between what is possible under the legislation of 1914, and under the legislation of to-day. The only distinction of any importance is one that I am prepared to maintain and support as obviously in the interests of this country; that is, in the operation of this road and in the administration of its affairs we shall use the corporate machinery; we shall not bring the road directly under the administration of a Government department.

“Having regard to what I have said and the explanation I have made, what remains of the amendment of my hon. friend? I have shown, that, so far as principle is concerned, we have acted absolutely in accord with the statute of 1914, but we have modified it in this respect, that, under this pro-

posals, we can use the powers of the corporation, the organization which it has built up and the machinery at its disposal, and we could not have done that if we had pursued in every respect the method embodied in the legislation of 1914. Therefore, when my hon. friend, with something of a flourish at the commencement of his speech, said that he had a method that would avoid any inquiry, any arbitration, and any delay, he was speaking without his book, unless he is prepared to say that he will support legislation which will deny to any man or any group of men in this country the right to come forward and support by evidence, if they can, the reasonable value of property taken from them. I do not think it would be in the interest of this country, which for many years to come must be a great borrowing country, if its resources are to be developed, that the Parliament of Canada should adopt any such method as that. It would be exceedingly unfortunate that it should go abroad, to the United States of America, to Great Britain, or to any of the other great lending countries of the world, that the people of Canada are represented in Parliament by men who are disposed, on occasion, for one purpose or another, to deny to those whose property is taken against their will, the right and the opportunity to make good their claim as to its value before an impartial and properly constituted tribunal."

### **INCONSISTENCY OF THE OPPOSITION.**

After having thus completely answered Opposition objections to the Government's proposals, the Prime Minister went on to sharply expose the inconsistency of Sir Wilfrid Laurier's followers in opposing in 1917 that which, under similar circumstances, they strongly advocated in 1914. Said the Premier:

"What was the position taken by hon. gentlemen opposite who put forward views on this question in 1914? All the leading men among them who spoke said that the Canadian North-

ern Railway Company and the Grand Trunk Pacific Railway Company could not be allowed to go into liquidation. I have their statements under my hand, but I will not trouble the House to quote them. If my statement is challenged I can give the date and the page of Hansard where such utterances appear. They said the road should not be allowed to go into liquidation and then they proceeded to show their sincere belief in that declaration by voting for a proposal to have the measure of the Government postponed for six months, which meant it would not be acted upon during that session and that liquidation would ensue. First they said: 'We must give aid.' Then they said: 'We must not give aid.' That is the literal meaning of the two positions they took. Then they asked Parliament to declare that there was not sufficient or reasonable information on which to base aid, and they proceeded to declare, although they said they had no such reasonable or sufficient information, that the road was bankrupt. They then advocated the acquisition of the whole of the capital stock of the Canadian Northern Railway, by arbitration, at a value not exceeding \$30,000,000.

"On the second day of June, 1914, the right hon. the leader of the Opposition made this proposal, seconded by the hon. member for St. John (Mr. Pugsley), who supported it in a strong speech—perhaps I had better read the concluding portion of the remarks of my right hon. friend (Sir Wilfrid Laurier), because he stated that in what I am about to quote he summarized the whole argument from the standpoint of his supporters in the House. At page 4634 of Hansard my right hon. friend said:

I said a moment ago that my intention was simply to summarize the views and the policy which we have laid before the people on this question, and summarize them in a few words. We must carry on this enterprise; we cannot allow it to go by default; we cannot allow anybody or anything to come in which would imply anything detrimental to our credit in England; this enterprise has to be carried out; but instead of carrying it out in the way proposed, we propose that we should carry it out by other means—that we should take absolute control of the enter-

prise; and for that purpose I beg to move, seconded by my hon. friend from St. John (Mr. Pugsley):

*"That the said Bill be not now read a third time, but that it be resolved that under existing circumstances no assistance should be given to the Canadian Northern Railway Company unless at the same time it is provided that the Government have power, within a reasonable time, to acquire the ownership of the entire stock of the company at a price to be fixed by arbitration, but not to exceed thirty million dollars."*

"My hon. friend from St. John (Mr. Pugsley) emphasized the exceedingly fair nature of the proposal made by his leader. He said it was fair to the proprietors of the Canadian Northern; it was fair to the people of this country; it was fair to the Government; it was fair to Parliament; it was fair to everybody. Here is his language as found on page 4641:

My right hon. friend (Sir Wilfrid Laurier) moves as an amendment that as a condition of granting this aid the Government shall be allowed to take control of this stock and control of the enterprise until it is completed, and that the country shall have leave to take over the entire stock of the Canadian Northern railway within a reasonable time at a price to be fixed by arbitration but not to exceed the sum of \$30,000,000. Is not that a reasonable proposition? Is not that a proposition which is fair to the people of this country who are called upon to assume this enormous liability? Is it not fair to Mackenzie, Mann and Company who are asking this country, for the fourth time, to help to complete this enterprise? It is fair to Mackenzie, Mann and Company, and it is a fair and reasonable proposition on behalf of the people of this country..

"Yet my hon. friend to-day is horrified at the idea of giving any hearing to the proprietors of the Canadian Northern stock or any hearing to the company in which is vested the equity of redemption subject to the mortgages which have been placed upon the property for the purpose of constructing the railway. I do not think that my hon. friends, in view of the attitude which they took in 1914, can expect that the country will give a great deal of weight to their affected horror at the very reasonable proposals of the Government."

With the inconsistency and insincerity of the Opposition thus exposed, and the strength of the Government's proposals thus

clearly outlined, opposition to the bill did not assume formidable proportions, and, despite a lobby conducted by certain interested financial groups in Montreal, and other enemies of Government ownership, Parliament sanctioned the legislation by a large majority.



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